

## **Understanding Estimated Tax Payments Talking Points for Tax Year 2002**

- Estimated Tax is the method used to pay tax on income that is not subject to withholding such as:
  - Self-Employment (filers of Form 1040 Schedule C and Schedule F)
  - Interest and Dividend
  - Alimony and Rents
  - Gains from the sale of assets
  - Prizes and Awards
- You may be charged a penalty for failure to pay enough tax through withholdings and/or estimated tax payments on your income
- Generally, you will make estimated tax payments if you expect to owe at least \$1,000 in tax for 2002, after subtracting your withholding and credits, and you expect your withholding to be less than the smaller of 90% of the tax shown on your 2002 tax return, or 100% of the tax shown on your 2001 tax return.
- If your adjusted gross income is more than \$150,000 (\$75,000 if married filing a separate return) and you are not a fisherman nor farmer, you will have to deposit the smaller of 90% of your expected tax for 2002 or 112% of the tax shown on your 2001 return to avoid a penalty.
- There is an exception for farmers and fishermen. If at least two-thirds of your gross income is from farming or fishing, you are not required to make estimated tax payments if your 2002 return is filed and paid by March 1, 2003.
- If you had no tax liability for tax year 2001 and were a U.S. citizen for the entire year, you do not have to make estimated tax payments.
- Estimated tax payments are generally made in four equal payments. Due dates for 2002: April 15, June 15, September 16 and January 15, 2003.
- There are five ways to pay estimated tax:
  - 1) Use the Electronic Federal Tax Payment System (EFTPS). It's safe, easy and convenient. You can use the system 24 hours a day, seven days a week, from home or office, and you may schedule your payments up to 120 days in advance of the due date. Call 1-800-945-8400 or 1-800-555-4477 or visit [www.eftps.gov](http://www.eftps.gov) online for more information.
  - 2) Pay by direct debit when filing Form 1040/1040A electronically.
  - 3) Use a credit card. Visit [www.irs.gov](http://www.irs.gov) for more information.

- 4) Credit an overpayment on your 2001 return to your 2002 estimated tax.
- 5) Send a payment along with Form 1040-ES payment voucher.

- References

- Publication 17, *Your Federal Income Tax*
- Publication 505, *Tax Withholding and Estimated Tax*
- Form 1040-ES and Instructions, *Estimated Tax for Individuals*